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84-1516

## ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Retirement Briefing

Tuesday, 17 Apr

4:00 - DCI Conf Rm

FROM:

Robert W. Magee

Director of Personnel

EXTENSION

NO.

DDCI, Ex Dir, DAA,  
Compt, S/O P

DATE

5 April 1984

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TO: (Officer designation, room number, and building)

DATE

RECEIVED

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OFFICER'S  
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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CEB - Called  
6P yesterday and  
asked them to send  
the attachments.

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11 APR 1984

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APR 5 1984

MEMORANDUM FOR: Director, Office of Legislative Liaison

FROM: Robert W. Magee  
Director of Personnel

SUBJECT: Retirement Briefing

[Redacted]

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As requested earlier, we will shortly be scheduling a meeting to brief the DDCI on the status of our retirement plan. I have attached a vocabulary that we retirement experts use. You may want to read this at your leisure--it's unclassified--so that we will all be speaking the same lingo.

[Redacted]

STAT

Robert W. Magee

Attachment

cc: DDCI  
DDA

## VOCABULARY

### Defined Benefit Plan (DBP)

A retirement plan design that establishes specific employee/employer contributions with a level of benefits upon retirement that are guaranteed by the employer.

The employer pays any additional costs needed to pay off future annuities at the promised level. Current CIARDS and CSRS use defined benefit plans.

A DBP permits definitive advance retirement planning based upon knowledge of future annuity levels.

### Defined Contribution Plan (DCP)

A retirement plan design that establishes specific employee/employer contributions with a level of future benefits based only on what the investment of contributions has purchased. Since annuity levels are not guaranteed, the employer is not obligated to provide any additional funding.

This type of plan weakens the capacity for definitive advance retirement planning since future annuity levels cannot be predicted.

### Capital Accumulation (Thrift) Plan (CAP)

A CAP is a supplementary contribution plan to augment the annuity produced by the basic retirement system plan.

CAPs are usually offered for optional participation by employees with or without full or partial matching contributions by the employer.

CAP employee voluntary contributions typically run from 2% to 6% of salary with employer matching 50% of the employee contribution.

### Combined Funding

There are elements with both the Senate and House who can be expected to support integration of the future supplemental plan funding with existing Federal civilian retirement funding on the premise that this will assure the future integrity of the existing retirement systems. In fact, statutory requirements assure the future integrity of current systems through future appropriations as required to pay defined benefits.

Combined funding of CIA's total annual retirement requirements within the Office of Personnel Management's Government-wide appropriations would "low profile" the Agency's funding requirements. Separate administration and accountability of annual allocations for CIA's Civil Service and CIARDS funds could be handled internally with the Agency.

### Replacement Income Rate (RIR)

The RIR is the percentage of final working year (or average of high three years, etc.) income that is replaced by the annuity when an individual retires.

Retirement income rates should be high enough to produce post retirement income levels for retirees that are sufficient to permit reasonable maintenance of pre-retirement life style.

### Accrual Rate

The percentage of average annual salary (final annual, high three or high five) multiplied by the number of years of service to determine the percentage of working income that is to be replaced by the annuity.

Example - 2% accrual rate of the average of the high three annual salary multiplied by 25 years of service provides a 50% replacement rate of the high three average salary.

### Indexing (COLA)

Increase of annuity levels relative to the amount of inflation in the previous year. Full indexing would provide increases equal to the full inflation level.

Most good private sector plans tend to provide ad hoc partial indexing to offset impact of inflation.

Current Federal civilian retirement systems are now fully indexed but are subject to temporary provisions limiting the percentage of indexing or delay of effective dates for COLAs.

### Percentage of Payroll (Cost)

Costs relative to retirement system contributions are portrayed in terms of percentages of the work force payroll. In the case of the Federal Civil Service system, the Government, in addition to employer/employee matching contributions, contributes payments to cover costs attributable to military service, increased benefits attributable to pay increases since 1969, and interest payments on the unfunded liability to keep the unfunded liability from growing.

### Portability

Employees participating in Social Security carry their creditable "covered" service to any employer required to carry Social Security. Similarly, most voluntary contributory "thrift" plans provide some form of portability for continued coverage under other plans of the carrier should a participant leave the services of the initial employer.

### Front-End Loading

A methodology to provide for scheduling higher percentages or amounts of retirement plan annuity payments for the period between early retirement

and eligibility for Social Security payments. When Social Security payments are payable, the benefit payments of the retirement plan would drop and be replaced by Social Security benefits to maintain the same level of continued income.

### Social Security "Tilt"

Social Security is a national social welfare insurance plan designed to supplement retirement income rather than a retirement system per se.

The benefit computation formulas are designed to redistribute contributions in the fund to provide a basic level of income to low income people that is higher than earned and lower benefits than earned by higher income individuals.

This "tilt" in the distribution of benefits also is applied to provide higher benefits without additional cost to married couples, families with dependent children, etc.

### Unfunded Liability

Unfunded liability is the cost of a retirement system that is not funded from past contributions or other funding sources.

The current Civil Service system unfunded liability resulted from such things as insufficient Government funding of the system for many years, COLA increases, crediting years of military service for which no contributions were made, etc.

Under current statute, the U.S. Government is the guarantor to assure that benefits earned under the provisions of the current Civil Service and CIARDS systems will be paid to participants in these systems.

### Full Funding

A fully funded system is one where sufficient money is invested now so that principal and earnings will be sufficient to pay all future expenses of benefits for the present work force.

Both the Civil Service and CIARDS systems are, by statute, fully financed systems and are not "fully funded" systems. Fully financed systems require the identification of sources of funding that will be used to pay all future expenses of benefits for the present work force.

<sup>7,00</sup>  
~~10:00~~ - Tuesday  
17 April  
(1 hr)

done.  
10 April 1984/3:18 p.m.

Mr. George:

Mr. Fitzwater's secretary called to invite you to a briefing on retirement supplemental next Tuesday at 10:00 in the DCI's Conference Room. The briefing is scheduled to be 1 1/2 hours. Attendees will be:

Mr. McMahon

☐ Mr. Fitzwater

Mr. Childs

Mr. Magee

Would you like to attend? Yes ☒

10 APR 1984  
No ☐

Judy

11 APR 1984 8:38 - ☐

Ceg will attend.

O/PDA advised

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